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SUBJECT: NIGERIA: GON AND PRIVATE SECTOR ENTHUSIASTIC ABOUT REGIONAL CAPITAL MARKET CLEARING SYSTEM

1. Summary: In mid-August, Special Advisor for the Department of the Treasury's Government Debt Issuance and Management (GDIM) program, Thomas Briggs visited Nigeria, presenting a proposal on the establishment of a regional securities clearing and settlement facility for sub-Saharan Africa to senior Government of Nigeria officials, private sector leaders and senior U.S. mission personnel. Briggs' model, AfriClear, would help open the door to the level of capital in-flows necessary to spur greater private sector on the continent. Because the feasibility study for such a clearing mechanism would require a high degree of cooperation among relevant USG agencies, post strongly recommends that State, USAID, Treasury, USTR, EXIM, and other relevant offices consider this project as a priority item for further development. End Summary.

2. Thomas Briggs visited Nigeria during the week of August 18, 2002 to discuss with various stakeholders a proposal to establish a regional securities clearing and settlement facility for Sub-Saharan African countries.

3. Briggs has dubbed the proposal Africlear. It would establish an international/regional clearing and settlement facility for Africa, similar to Euroclear and Clearstream, the international central securities depositories (ICSDs) that serve the northern hemisphere international capital markets. The proposed system would be a capital markets clearing and settlement facility operating across Africa to provide access to African capital markets for investors from the rest of the world.

4. Briggs believes current technical barriers to capital market development in Africa are not amenable to bilateral, private or public sector solutions by any individual actor. These technical barriers must be overcome to realize any hope of cross-border liquidity and significant portfolio investment inflows. The AfriClear initiative would ease the way of capital flows into Africa, and lay the necessary financial groundwork for the kind of private-sector led growth experienced in Latin America and Southeast Asia.

Nigeria as a Part of AfriClear

5. Nigeria is one of three potential stakeholder countries for the proposed facility. It possesses the second largest securities market in the region (after South Africa) and could potentially contribute, along with South Africa, the transactions volume that could make the facility self-sustaining.

6. Furthermore, Nigeria, and especially President Olusegun Obasanjo, are leaders of the New Partnership for Africa's Development (NEPAD). The NEPAD agenda specifically lists as key priorities "the deepening of financial markets (cross-border harmonization and integration (risk reduction and speeding up of financial market integration through establishing an international standard legislative and regulatory framework and creating a single African trading platform.8

Results of Meetings

6. Briggs separately met chief executives/senior representatives of the Nigerian Stock Exchange (NSE), Central Securities Clearing System, Economic Community of West African States (ECOWAS), Ministry of Integration and Cooperation in Africa, New Partnership for African Development (NEPAD), Office of the President of the

15. The reaction of Nigerian interlocutors to AfriClear was universally positive. Executives from the Nigerian Stock Exchange discussed the utility and relevance of AfriClear to plans to grow their market. The exchange has already begun cross-border listing initiatives with the Johannesburg Stock Exchange, the kind of synergies that would be enhanced with a facility such as AfriClear.

16. The chief executive of the Central Securities Clearing System (CSCS), the organization responsible for clearing securities transactions generated on the floor of the Nigerian Stock Exchange, welcomed the prospect of feeding CSCS into a wider regional securities settlement network. He also discussed present difficulties in attempts by smaller regional players to piggy-back on Nigeria's stock market operations infrastructure. The CSCS Chief Executive believes a facility like AfriClear would address these types of constraints and facilitate cross-border transaction flows.

17. Minister for Integration and Cooperation in Africa, Dr. Bimbo Ogunkelu, as well as the head of Nigeria's NEPAD team, Ambassador Isaac Aluko-Olokun, were receptive to the proposal and agreed it would enhance economic development and directly promote regional integration. In separate meetings, they both recommended the initiative as a NEPAD agenda item. Ambassador Aluko-Olokun subsequently discussed the idea with NEPAD counterparts in South Africa, and issued a formal invitation letter asking for the proposal to be presented for discussion at the Africa Union/NEPAD Regional Conference in Cameroon in October 2002.

18. Briggs met Steven Oronsaye, Principal Secretary to the President, and Dr. Oby Ezekwesili, Special Adviser to the President on Budget Matters. Oronsaye said he would bring the proposal to the attention of President Obasanjo with a recommendation that he support it for its potential impact on portfolio investment into the region.

19. Ambassador Jeter and the USAID Mission Country Director lend their support to including this project in our efforts to assist economic development and integration in Africa. It is hard to overestimate the role that private sector investment might play in Africa. AfriClear would make private sector direct and portfolio investment attractive not only to foreign investors, but also to the Nigerians and other African investors.

110. The feasibility study for such a clearing mechanism would require considerable technical expertise, much of which resides in differing USG agencies. Post believes this is a worthwhile project and would ask that relevant USG agencies, including State, USAID, Treasury, USTR, and EXIM, take it under consideration as a priority item for further development.

JETER